



# Washington State Auditor's Office

## 2002 Annual Report



Washington

***State Auditor***

Brian Sonntag

### **Mission Statement**

**The State Auditor's Office independently serves the citizens of Washington by promoting accountability, fiscal integrity and openness in state and local government. Working with these governments and with citizens, we strive to ensure the proper use of public resources.**

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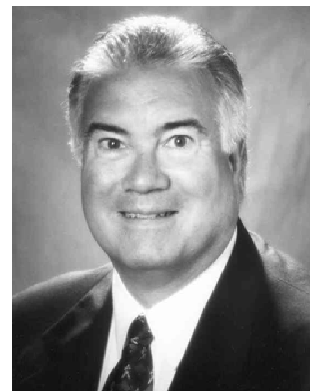
## To the Citizens of Washington

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December 2002

A year ago in our Annual Report, we presented a case for a citizen-driven, statewide look at how government does what it's doing, and how we could improve.

I believed, and still do, that much can be gained through such an effort, including opportunities to reconnect citizens and government; to use technology to help government be more responsive and to coordinate services; and to orient government toward results and accountability.



I am pleased to report that some steps have been taken. For example, our Office and the state Office of Financial Management were asked by the Legislature to contract for performance audits in three areas: claims and benefits, construction, and contracting. Our claims and benefits audit arrived at some interesting conclusions, which are detailed later in this report.

I believe that these audits lay the groundwork for what is really needed: a fundamental, comprehensive look at the performance of state government: whether agencies are living up to their missions and providing services people need and want in the most efficient way possible.

With much uncertainty swirling around us all, I can assure you of a couple of things. First, our audits of state and local governments are independent because we report to the citizens of Washington, not to any other elected official or branch of government. We are not a government accounting shop, we are the public's auditor. Our Office's work was created in the Constitution by some folks who, even back in 1889 and long before Enron, understood the need for **independent** audits.

Second, we hold ourselves to high standards. We continue to look for new, more efficient ways to audit in recognition of the budget issues faced by those we audit.

Third, everyone in this Office has a commitment to helping government be more accountable to those whom it serves. I've come to find out in the past year that the term accountable means different things to different people. But underlying it all is using a common-sense approach to all that we do.

I believe that the events of the past year present us with a great opportunity. Government officials at all levels and of all political persuasions should recognize that our cooperation is critical to meeting the needs of the citizens of Washington.

Sincerely,

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with a large loop at the end.

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

## 2002 Highlights

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- **Reports and information on our Office and programs can be found at [www.sao.wa.gov](http://www.sao.wa.gov)**
- **Most of our Olympia staff now is located in the Sunset Building, 3200 Capitol Blvd S., South Wing.**
- **For more complete directions, go to our web site, or phone (360) 902-0370.**

**As we look back** at 2002, several accomplishments come to mind.

- Our first statewide Accountability Report, which rolled our findings on compliance with state laws and regulations into one document. This approach enabled us to look at some issues on a statewide basis and to make comprehensive recommendations for improvements.
- Expansion of our use of computer-assisted auditing techniques to look at the state's systems for determining eligibility for benefits. As a result of this work, the 2002 Legislature directed us to contract for a performance audit of these systems. This audit, completed in November, made significant recommendations for improvements.
- Continuing partnerships with schools and local governments in efforts to contain audit costs. Our creative staff came up with several ways to do this that will not affect the quality of our audit work.
- Investigation of and reporting on a nearly \$850,000 fraud in a state agency, the largest ever for our Office.
- Realigning some duties among our top deputies to make our operations more efficient. The realignment also included assigning entity types, rather than audit teams, to our assistant directors in order to bring about greater consistency in our approach to audits and to our reporting. It also made improvements to our technical assistance programs.
- Expansion of our Financial Analysis Project, which allows those we audit to provide us with electronic data that we can analyze before beginning our fieldwork. This brings greater efficiency to the audit process.

**In 2002, we continued** our push for a statewide review of government performance. We were partially successful when, late in the 2002 session, state lawmakers earmarked \$150,000 from the state general fund for our Office to contract with a performance audit of how state agencies handle claims for benefits.

The performance audit focused on approximately \$28 billion in state and federal dollars spent on benefits in the state in 2001. The audit looked at direct payments to clients receiving economic assistance, medical assistance and employment assistance from these agencies: Community, Trade and Economic Development; Employment Security; Health Care Authority; Labor and Industries; and Social and Health Services.

As directed by the Legislature, the audit included a look at several areas, including a determination as to whether clients are appropriately receiving program benefits from more than one agency; whether these activities can be more effectively combined or coordinated into some type of "one-stop shopping"; the extent to which legislative, regulatory and organizational goals and objectives are being achieved; and recognition of best practices.

In the end, we were able to deliver a balanced, constructive report that makes several conclusions about operations and significant recommendations. Among them are:

### Conclusions

- Performance levels increase when there are clear legislative and regulatory expectations with executive support.
- The state should focus its performance measures on program effectiveness (participant outcomes).
- The state needs to anticipate and plan for changes in federal performance measurement.
- The state's structure does not enhance benefit coordination.

**Results of the claims/benefits performance audit may be found at**

<http://www.sao.wa.gov/Reports/PerformanceAudit/PerformanceAccountabilityPage.asp>

**The 2002 Legislature also directed the state Office of Financial Management to contract for performance audits of the state's personal service contracting and construction contracting practices and to develop a scorecard on agency operations. Results of that work may be found at**

<http://www.ofm.wa.gov/reports/assessment/index.htm>

## — Performance Review —

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### **The performance audit of claims and benefits made several other observations:**

- **Requiring Social Security numbers or unique ID numbers would help to coordinate benefits and detect overpayments**
- **The accuracy of claim payments should be measured in all programs**
- **Internal audits can be used to examine the validity and reliability of performance reporting**

### **Conclusions, continued**

- The state's information systems were not designed to support performance management.
- The state should integrate various performance measurement systems into an overall performance measurement system.

### **Recommendations**

If the state is committed to effective performance management it should:

- Clearly articulate performance expectations in its statutory framework.
- Have executive leadership support improvements in a few, focused performance goals.
- Balance its performance goals with more program outcome measures.
- Integrate the various performance systems to provide clear priorities.
- Consider organizational structure and governance realignment to support performance, benefit coordination and information-sharing.
- Include performance measurement needs in long-term strategic information systems planning efforts.

**Citizen calls for** “accountability” continue to escalate, as state leaders discuss exactly what it is that citizens are looking for.

What we do know is that citizens want us to make good decisions with their money and to involve them in those decisions. We also know that citizens, if they perceive government isn’t listening, will find ways to get our attention.

We could spend a lot of time debating just what citizens mean when they talk about accountability. But in my mind, accountability means using common sense. And common sense tells us that integrity matters, open government matters, responsiveness and reliability matter, trustworthiness matters, and that citizens and public employees matter.

We have a responsibility to listen, and more than that, we have a responsibility to respond. To that end, I am again advocating an Alliance for Accountability.

The Alliance would involve a range of people in a non-partisan governance summit to address fundamental and far-reaching questions such as what services state government should provide, how they should be delivered, how we finance those services, and what the state will do to support local governments that are reeling from the effects of recently passed initiatives.

I believe the Governor’s Priorities of Government effort is a good starting point, but so far has not included broad citizen participation. I also believe the state has made strides in performance measurement and budgeting. There are other good examples, such as the state Productivity Board, which demonstrate that state employees also have great ideas about ways to increase government efficiency.

Yet the fact remains that the state has yet to take that comprehensive look at whether it is delivering the right services in the right way.

I think it’s time that we demonstrate that we are worthy of the trust and respect of those whose lives are touched by government every day. We do a lot of good stuff, and we need to convey that message. But we can’t expect citizens to believe it unless we fully engage them in a discussion about the future of our state.

## **The Alliance for Accountability**

- **Would be composed of Washington's top leaders and best thinkers, including citizens, business, labor, front-line state employees, college and university students and faculty, and elected leaders.**
- **Engage a great number of citizens in constructive discussions. These could include focus groups, a web page to take citizen comments and suggestions, town hall meetings and other public forums across Washington to hear from everyone who wants to speak up.**

## Fraud and Whistleblower Programs

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- **In the past year, we have reported on more than \$1.1 million in fraud in state agencies and local governments. This includes the largest fraud ever investigated by our Office.**
- **During fiscal year 2002 the Whistleblower Program substantiated 48 percent of all assertions filed and sought recovery of more than \$98,837.**

**Our Whistleblower and fraud programs** continued to improve in 2002, while still maintaining the same quality of work.

We have made fraud prevention and detection an integral part of our risk-based approach to auditing. This approach provides meaningful information to citizens, legislators and other policymakers interested in state and local government operations.

We take great pride in the two aspects of the fraud program: The Special Investigations Team, which monitors all fraud cases throughout the state and our fraud prevention training for the financial managers of state agencies and local governments. Annually, we reach more than 2,500 employees.

The State Employee Whistleblower Protection Program authorizes the Office to investigate and report on assertions of improper governmental action that result from violations of federal or state law or rule; a gross waste of public funds; or actions which are of substantial and specific danger to public health or safety. The law also provides remedies through the Human Rights Commission to state employees who believe that workplace reprisal or retaliatory action has occurred as a result of having filed, or provided information in connection with, a report of improper governmental action.

We work hard to complete our investigations in a timely manner.



**In 2002**, the state's 296 school districts spent roughly \$8 billion in state, local and federal funds.

Our work showed that overall, schools are good stewards of public dollars, reflecting a strong sense of fiscal responsibility that begins with district board members and top administrators and that is taken to heart by those who are in charge of day-to-day operations.

However, we have found some common issues faced by districts and have responded by providing training at conferences and in specific districts when it is requested. Those issues include controls over money collected by Associated Student Body organizations and grants management.

In addition to our regular audits, we also look at data on enrollment, bus ridership and teacher education and experience that must be reported to the Office of Superintendent of Public Instruction to determine how much money districts receive. Since we began these audits, we have noted a marked increase in the accuracy of that data.

Although the federal Washington Education System Single Audit Pilot Project of schools ended in 2002, we did gain valuable information that we will use to help contain audit costs. For example, we learned that we could gain efficiencies, consistency and quality through the central administration and coordination of these audits.

Under the pilot, school districts spending more than \$300,000 in federal funds were audited on a statewide, rather than a district-by-district basis, saving some smaller districts thousands of dollars. In total, districts saved more than \$2 million over the four years of the project. Some of the larger districts, however saw little benefit and did not support the project. Now, we will go back to individual audits of federal expenditures, which could lead to increased costs in many districts. Some of this will be mitigated by a change in federal regulations that lifts the spending level that requires an audit when more than \$500,000 in federal funds are spent. Our Office was instrumental in getting federal oversight groups to make this change.

**We have developed new cost-containment strategies to assist schools and to increase our own efficiency. We hope these strategies, of cycling audits and centralizing our analysis of financial and other data, will save the smallest schools a significant amount.**

**We also are expanding our Financial Analysis Project, which allows us to use data on transactions to produce computer-assisted audit tests. When complete, this project also will assist us in containing audit costs.**

## Local Government

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**The local governments** we audit include tiny mosquito districts and large complex organizations, such as King County.

But no matter what the size, we view these governments as partners in our efforts to promote accountability over public dollars.

We know that local governments are facing some challenges as they respond to voter passed initiatives limiting tax increases. We want to assist them in developing efficient and innovative approaches to effective internal controls that protect tax dollars from loss, misappropriation or misuse.

And, as we are doing with schools, we are working with local governments to develop new cost-containment strategies while continuing to provide truly **independent** auditing services. We are partners with these governments to help them meet the taxpayers' expectations for accountability.

Also this year, we have begun official recognition of those governments with five consecutive clean audits. We believe that at least in part, these clean records are due to governments listening to our constructive suggestions for improvements and responding to them as good stewards of public resources.

We also appreciate the partnerships we have with associations representing local governments. These associations work with us on complex issues ranging from the provision of Internet delivery systems to compliance with new federal regulations on reporting.

**Our Local Government Finance Project continues to collect and report on information from the state's counties and cities.**

**The information is easily accessed on our web site, [www.sao.wa.gov](http://www.sao.wa.gov), and reports can be customized, depending on what a user needs.**

**Policymakers, legislators, citizens and local government officials find the data very helpful.**

**The publication earlier** this year of our first statewide Accountability Report is one more way our Office is changing to reflect changing needs and growing expectations for information about how state government is using its resources.

In this report, we looked at several areas on a program, rather than agency-by-agency basis. Based on this work, we were able to make these recommendations:

- The state develop a centralized claims and benefit process so individuals' benefits can be cross-matched to determine if they are eligible for all benefits they are receiving and are receiving all benefits they are entitled to.
- A legal review of the laws and requirements on the retention of public records to ensure state agencies' electronic copying systems are not violating state law.
- Funding be provided or the state law be modified that requires state agencies to have an internal audit function.

In 2003, the results of our audit of federal funds spent by agencies also will be included in the accountability report. This report, to be issued in late January, will have information on claims and benefits; the use of restricted funds; internal controls; accounts receivable; and other areas.

We hope that it is useful as lawmakers begin what promises to be a very difficult legislative session that will have to pay close attention to how limited resources are being used.

**Over the past five years, our audit costs have increased \$304,143, while state expenditures have increased by \$6 billion. Over the same time period, the audit cost as a percentage of expenditures has decreased.**

## About our Office

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- **We operate on a \$40 million two-year budget with a staff of about 300 employees.**
- **We have 19 teams located in Olympia and throughout the state.**

### **People often ask:** Who audits the auditor?

In late 2001 and in 2002, our operations were reviewed by an independent auditor, a group of our peers, and a performance auditor who looked at the efficiency and effectiveness of our whistleblower program.

We view the recommendations that resulted from these reviews the same way as we view the recommendations that we make to others – as tools that will help us improve our operations.

For example:

- **Audit:** A private sector auditor hired by the state Office of Financial Management.
- **Peer review:** In 2001, a panel of auditors selected by the National State Auditors Association reviewed our work for the past three years. They reviewed our quality control system, which is designed to ensure our work meets standards of professional care set by outside organizations. Our Office received an unqualified opinion, and some recommendations regarding how we document the work we have done.
- **Whistleblower Program:** The auditor noted areas of strength, including a high number of agencies that are satisfied with how we conduct our investigations and improvements in the timeliness of our investigations. Recommendations were made regarding better integration of the whistleblower investigation process across agencies and continuing efforts to strengthen cost controls.
- We also have a mechanism for those who wish to appeal audit costs. In 2002, we received only one such appeal. The costs were upheld.

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Director of Administration: Linda Long, CPA, CGFM	(360) 902-0367
Director of Operations: Jim Brittain, CPA	(360) 902-0372
Local and State Governments Liaison: Mike Murphy	(360) 902-0362
Quality and Staff Development: Rick Sweeney	(360) 902-0365
Whistleblower Program: Lead Investigator Britt Scott	(360) 902-0090
Fraud Investigations Manager: Joe Dervaes	(360) 710-1545
Communications Program Manager: Mindy Chambers	(360) 902-0091
Public Records Officer: Will Kinne	(360) 902-0376

### **Local Government Audits**

Bellingham	(360) 676-2165
King County	(253) 872-2622
Lynnwood	(425) 672-1335
Olympia	(360) 725-5376
Port Orchard	(360) 895-6133
Pullman	(509) 335-5868
Seattle	(253) 872-2641
Spokane	(509) 456-2700
Tacoma	(253) 593-2047
Tri-Cities	(509) 734-7105
Vancouver	(360) 260-6408
Wenatchee	(509) 662-0440
Yakima	(509) 454-7848
School Programs	(360) 586-4692
Local Government Finance Project	(360) 753-3574

### **State Government Audits**

Financial Audit	(360) 725-5352
Human Services	(360) 753-2692
Judicial, Executive and Legislative	(360) 725-5408
Technology	(360) 725-5428

Web site	<a href="http://www.sao.wa.gov">http://www.sao.wa.gov</a>
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